

February 26, 2020

The Honorable Steven Johnson, Chairperson
 House Committee on Taxation
 Statehouse, Room 185A-N
 Topeka, Kansas 66612

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2648 by Representative Toplikar

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2648 is respectfully submitted to your committee.

Under current law, the non-refundable food sales tax credit is restricted to taxpayers that earn \$30,615 or less and are over the age of 55, or disabled or blind, or have at least one dependent under the age of 18 living with them the entire year; and the tax credit amount is determined by multiplying the number of exemptions by \$125 for the qualifying taxpayer. HB 2648 would make the current non-refundable food sales tax credit a refundable tax credit beginning in tax year 2020. The bill would now determine the food sales tax credit amount by tax filing status and could be claimed by all taxpayers with income at or below the following federal adjusted gross income levels:

<u>Filing Status</u>	<u>Income Level</u>	<u>Credit Amount</u>
Single	\$41,000	\$248
Head of Household	50,000	290
Married Filing Jointly	67,000	372
Married Filing Separate	41,000	248

The refundable food sales tax credit would not be available to taxpayers enrolled in the federal food stamp program. The Department of Revenue would have the authority to write rules and regulations to implement the bill.

Estimated State Fiscal Effect				
	FY 2020 SGF	FY 2020 All Funds	FY 2021 SGF	FY 2021 All Funds
Revenue	--	--	(\$175,200,00)	(\$175,200,000)
Expenditure	--	--	\$224,758	\$224,758
FTE Pos.	--	--	--	3.00

The Department of Revenue estimates that HB 2648 would decrease State General Fund revenues by \$175.2 million in FY 2021, \$177.1 million in FY 2022, and \$178.9 million in FY 2023.

To formulate these estimates, the Department reviewed tax return data from tax year 2018. The Department created a simulated tax table for all taxpayers that would be eligible for the new refundable food sales tax credit. The Department of Revenue estimates that almost 640,000 tax returns would claim an additional \$175.2 million in refundable food sales tax credits beginning in FY 2021. This number excludes approximately 96,000 households enrolled in the federal food stamp program as reported by the Kansas Department for Children and Families as they would not qualify for this tax credit under the provisions of the bill. The Department estimates that the number of tax returns grows approximately 1.0 percent each year. The Department of Revenue indicates that 66,469 claimed \$9,666,483 in non-refundable food sales tax credits in tax year 2018. The estimate assumes approximately \$10.0 million in non-refundable food sales tax credits would be claimed in tax year 2020 or FY 2021 under the current non-refundable food sales tax credit.

The Department of Revenue indicates that it would require a total \$224,758 from the State General Fund in FY 2021 to implement the bill and to modify the automated tax system. The bill would require the Department to hire at least 3.00 new Customer Service Representative FTE positions to review and process state returns that include the new refundable food sales tax credit. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue and outside contract programmer services. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, additional expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Department of Administration indicates that adjusting state income tax collections has the potential to have a fiscal effect on the amount of revenue collected from its debt setoff program. This program intercepts individual income tax refunds and homestead tax refunds and applies those amounts to debts owed to state agencies, municipalities, district courts, and state agencies in other states. Debts include, but are not limited to child support, taxes, educational expenses, fines, services provided to the debtor, and court ordered restitution. As the dollar amounts of refunds are increased, the amount available for possible debt setoffs is also increased. However, the Department is unable to make an estimate of the amount of additional debts setoffs that will be intercepted as a result of the bill. Any fiscal effect associated with HB 2648 is not reflected in *The FY 2021 Governor's Budget Report*.

Sincerely,



Larry L. Campbell
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Jeff Scannell, Department of Administration